

**RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED OCTOBER 31, 2016**

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
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YEAR ENDED OCTOBER 31, 2016

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## Independent Auditor's Report

Board of Directors  
Rural Water and/or Sewer and/or Gas and/or Solid Waste  
Management District No. 1, Grady County, Oklahoma

### Report on the Financial Statements

We have audited the accompanying statement of net position of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma as of October 31, 2016 and the related statements of revenues, expenses and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma, as of October 31, 2016; the changes in financial position; and, cash flows thereof, for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

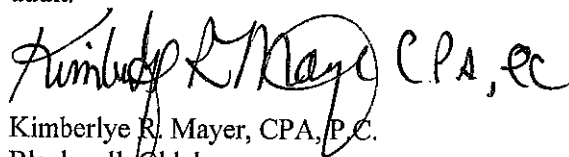
## **Other Matters**

### *Required Supplementary Information*

Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated February 6, 2017 on our consideration of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

 CPA, PC

Kimberley R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 6, 2017

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN  
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Rural Water and/or Sewer and/or Gas and/or Solid Waste  
Management District No. 1, Grady County, Oklahoma

We have audited the financial statements of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma as of and for the year ended October 31, 2016 and have issued our report thereon dated February 6, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Response to Findings**

Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Handwritten signature of Kimberley R. Mayer in black ink, with the letters 'CPA, PC' written to the right of the signature.

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
February 6, 2017

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED OCTOBER 31, 2016

**Material Weakness Communicated In Prior Year:**

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

**Criteria:**

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:**

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

**Cause:**

The entity's limited size has made it difficult for management to fully segregate the duties.

**Effect or Potential Effect:**

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:**

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

**Board's Response:**

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES



RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
STATEMENT OF NET POSITION  
OCTOBER 31, 2016

ASSETS

Current Assets:

Cash and cash equivalents	\$ 69,610
Certificate of deposits	35,739
Accounts receivable (Note 3)	14,135
Total Current Assets	<u>119,484</u>

Water system (net of accumulated depreciation) (Note 4)	<u>315,994</u>
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Total Assets	<u><u>\$ 435,478</u></u>
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LIABILITIES AND NET POSITION

Current Liabilities:

Accounts payable	\$ 3,999
Payroll taxes due	671
Interest payable	399
Customer deposits	4,253
Notes payable (current portion) (Note 6)	13,271
Total Current Liabilities	<u>22,593</u>

Notes payable (long-term portion) (Note 6)	<u>77,350</u>
	99,943

Total Liabilities

Net Position:

Net investment in capital assets	225,373
Unrestricted	110,162
Total Net Position	<u>335,535</u>

Total Liabilities and Net Position	<u><u>\$ 435,478</u></u>
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RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
YEAR ENDED OCTOBER 31, 2016

Operating Revenue:	
Water sales	\$ 67,039
Sanitation charges	18,186
Sewer charges	11,251
Late fees	2,320
Other income	5,715
Total Operating Revenue	<u>104,511</u>
Operating Expense:	
Water costs and rights	6,666
Sanitation costs	15,204
Payroll	30,960
Payroll taxes	2,541
Insurance	3,751
Postage and supplies	2,837
Dues, licenses and fees	4,070
Professional fees	5,988
Repairs and maintenance	6,804
Utilities	7,357
Other expenses	5
Depreciation	16,678
Total Operating Expense	<u>102,861</u>
Income (Loss) From Operations	1,650
Non-operating Revenue (Expense):	
Benefit units	
Interest income	493
Interest expense	(1,517)
Loan administration fees	(497)
Total Non-operating Revenue (Expense)	<u>(1,521)</u>
Change in Net Position	129
Net Position, beginning of year	<u>335,406</u>
Net Position, end of year	<u><u>\$ 335,535</u></u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
YEAR ENDED OCTOBER 31, 2016

Cash Flows From Operating Activities:

Cash received from customers	\$ 105,014
Cash payments to employees	(30,960)
Cash payments to suppliers for goods and services	(53,803)
Net cash provided (used) by operating activities	<u>20,251</u>

Cash flows from non-capital financing activities:

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	
Principle payments	(11,700)
Interest payments	(1,517)
Benefit units	
Administration fees	(497)
Net cash provided (used) by financing activities	<u>(13,714)</u>

Cash flows from investing activities:

Interest on cash and investments	493
(Increase) decrease in CD's	(425)
Net cash provided (used) by investing activities	<u>68</u>

Net increase (decrease) in cash and cash equivalents	6,605
Beginning cash and cash equivalents	63,005
Ending cash and cash equivalents	<u>\$ 69,610</u>

Reconciliation of operating income (loss) to

net cash provided (used) by operating activities:

Operating income (loss)	\$ 1,650
Adjustments to reconcile operating income (loss) to	
net cash provided (used) by operating activities:	
Depreciation	16,678
Changes in assets and liabilities:	
(Increase) decrease in receivables	503
Increase (decrease) in customer deposits	400
Increase (decrease) in payables	1,020
Net cash provided (used) by operating activities	<u>\$ 20,251</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma was organized and established in 1964 under the provisions of Title 82 of the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sanitation and related facilities and services.

The District is a governed entity administered by a Board of Directors that act as the authoritative and legislative body of the entity. The Board is comprised of elected board members. Members are owners of land located within the District who have subscribed to benefit units. Participating members are entitled to one vote.

Basis of Accounting

The accounting policies of Rural Water and/or Sewer and/or Gas and/or Solid Waste Management District No. 1, Grady County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Cash and Deposits

Cash and deposits are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation. The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets is reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2016

NOTE 2 – CASH AND CASH EQUIVALENTS:

For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

NOTE 3 – ACCOUNTS RECEIVABLES:

The accounts receivable balance at October 31, 2016 includes amounts due from customers for water service fees. The District's bad debts in the past have been immaterial, therefore, no allowance for doubtful accounts is recorded.

NOTE 4 – WATER SYSTEM:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended October 31, 2016 was \$16,678. The following is a summary by category of changes in property and equipment:

Category	10/31/15	Additions	Deletions	10/31/16
Machinery and equipment	\$ 5,907	\$	\$	\$ 5,907
Office equipment	4,084			4,084
Land and buildings	25,824			25,824
Waterline system	691,271			691,271
Accumulated depreciation	(394,414)	(16,678)		(411,092)
Net	<u>\$ 332,672</u>	<u>\$ (16,678)</u>	<u>\$</u>	<u>\$ 315,994</u>

NOTE 5 – DEPOSITS:

At October 31, 2016, all of the District's deposits were covered by Federal Depository Insurance Corporation.

NOTE 6 – NOTES PAYABLE:

The District entered into a note agreement with the OWRB for improvements to their system. The note carries an interest rate of 3% and an administration fee of .5%. The payments are semiannual and the note matures on September 15, 2023.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2016

NOTE 6 – NOTES PAYABLE (continued):

The following is a detail of the note activity during the fiscal year ended October 31, 2016:

Balance at 10/31/15	\$ 102,321
Principle payments	(11,700)
Balance at 10/31/16	<u>\$ 90,621</u>

The following is a schedule detailing the annual debt service requirements:

Year Ended	Principle	Interest
10/31/17	\$ 13,271	\$ 486
10/31/18	13,374	371
10/31/19	13,430	303
10/31/20	13,487	236
10/31/21	13,547	169
10/31/22-10/31/23	23,512	134
	<u>\$ 90,621</u>	<u>\$ 1,699</u>

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 8 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered.

NOTE 9 – COMMITMENTS AND CONTINGENCIES:

As of October 31, 2016, the District did not have any pending litigation or potential non-disclosed liabilities that management believes would have a material effect on the financial statements.

RURAL WATER AND/OR SEWER AND/OR GAS AND/OR SOLID WASTE  
MANAGEMENT DISTRICT NO. 1, GRADY COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED OCTOBER 31, 2016

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS:

The definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosure about the use of fair value measurements in an effort to make the measurement of fair value more consistent and comparable.

**Level 1:** Quoted prices in active markets for identical securities.

**Level 2:** Other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment spread and credit risk).

**Level 3:** Significant unobservable inputs (including the District's own assumptions in determining the fair value of investments).

The District's financial instruments include cash and cash equivalents, certificates of deposit, accounts receivable, accounts payable and notes payable. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

NOTE 11 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through February 6, 2017 the date which the financial statements were available to be issued.